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Economic costs of the Israeli occupation for the Palestinian people

Note by the Secretary-General

The Secretary-General has the honour to transmit to the General Assembly the report prepared by the secretariat of the United Nations Conference on Trade and Development on the economic costs of the Israeli occupation for the Palestinian people, in accordance with Assembly resolution 69/20.

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Report prepared by the secretariat of the United Nations Conference on Trade and Development on the economic costs of the Israeli occupation for the Palestinian people*

Summary

Throughout history, colonization and occupations have always had economic dimensions. This is also the case in the Occupied Palestinian Territory, where the occupation imposes heavy economic costs on the Palestinian people and their economy. The estimation of these costs is an essential first step for reversing the damage caused by the occupation, achieving the Sustainable Development Goals in the Occupied Palestinian Territory and forging a just and lasting peace in the Middle East. However, not all losses inflicted by the occupation can be evaluated in monetary terms, and no estimation of the cost of the occupation should be used for advocating monetary compensation as a substitute for ending the occupation. In the previous century, there were several international legal precedents where economic costs had been taken into account as key elements for negotiating durable solutions to intractable conflicts. Previous studies have suggested that the Palestinian economy could be twice its current size, had the occupation not occurred. There is a need to establish within the United Nations system a systematic, evidence-based, comprehensive and sustainable framework for estimating the economic costs of the occupation and to report on the results to the General Assembly, not only to fulfil the request contained in resolution 69/20, but also to achieve the Sustainable Development Goals in the Occupied Palestinian Territory.

* Any designations employed and the presentation of the material in the present document do not imply the expression of any opinion whatsoever on the part of the Secretariat of the United Nations concerning the legal status of any country, territory, city or area, or of its authorities, or concerning the delineation of its frontiers or boundaries. In accordance with the relevant resolutions and decisions of the General Assembly and the Security Council, references to the Occupied Palestinian Territory or territories pertain to the Gaza Strip and the West Bank, including East Jerusalem. Use of the term "Palestine" refers to the Palestine Liberation Organization, which established the Palestinian National Authority. References to the "State of Palestine" are consistent with the decision of the General Assembly, in its resolution 67/19.

Contents

		Page
I.	Objective	4
II.	From a thriving economy to a deformed economic structure	5
	A. Some perspective on the economics of occupation	5
	B. Deformed economic structure with low productivity	6
III.	Conceptual basis for the economic costs of occupation	9
IV.	Legal framework: historical precedents	10
V.	Some earlier estimates of the economic costs of the occupation	11
VI.	Typology of losses and methodology	16
	A. Concept of losses and their typology	16
	B. Methodology, periodicity and data	17
VII.	Institutional set-up, implementation and outputs	18
	A. Institutional set-up and implementation	18
	B. Outputs and activities	18
VIII.	Conclusion and recommendations	20

I. Objective

1. Almost half a century of Israeli occupation of the Gaza Strip and the West Bank, including East Jerusalem (Occupied Palestinian Territory), has established and continues to reinforce an asymmetrical power relationship between Israel and Palestine. On the one hand, the Palestinian people are denied access to their own land, water and natural resources, while their property and assets are being confiscated or destroyed. On the other hand, Israeli settlements continue to expand and new ones are built, the settler population continues to grow and the detrimental consequences of the occupation are now engrained in the daily lives of the Palestinian population under occupation. Forty-eight years of policies and measures, imposed by the occupying authority, have set the Palestinian economy on a debilitating path of dependence and inflicted on the Palestinian people enormous direct and indirect costs.

2. On 25 November 2014, the General Assembly adopted resolution 69/20. In paragraph 9 of the resolution, the Assembly requested the United Nations Conference on Trade and Development (UNCTAD) to report to the Assembly on the economic costs of the Israeli occupation for the Palestinian people. On 24 November 2015, the Assembly, in paragraph 9 of its resolution 70/12, noted with appreciation the efforts of UNCTAD to compile the report and called for the exertion of all efforts for the provision of necessary resources to expedite the completion of the report.

3. From the outset, it must be stated that any estimation of the economic costs of the occupation is not to be, and should not be, considered a substitute for ending it. Moreover, not all occupation-related damages can be measured in monetary terms. No monetary value can be attached to the agony of the loss and destruction of life, livelihood, liberty, community, shelter, culture and homeland. It must be made clear that the assessment of the economic costs of the occupation is, at best, a partial measure of the losses and costs incurred owing to the occupation and an essential first step towards reversing its damaging impact, achieving the Sustainable Development Goals in the Occupied Palestinian Territory and ultimately ending the occupation.

4. Determining the economic costs of the occupation is a dynamic process that changes and evolves with the intensity of actions taken by the occupying authority. No single document is capable of reporting comprehensively on the historical, ongoing and future economic costs of the occupation. Therefore, the objective of the present report is to make the case for establishing within the United Nations system a sustainable and comprehensive framework to systematically, rigorously and periodically report to the General Assembly on the economic costs of the occupation for the Palestinian people, until the cessation of the occupation. Accordingly, the report highlights historical precedents for similar situations, reviews some of the previous work done in this area, elaborates on the degree of complexity and scope of the proposed framework and reporting structure, reflects on how the assessment could be accomplished and evaluates the resources required for UNCTAD to establish the framework and report to the Assembly.

II. From a thriving economy to a deformed economic structure

5. The economy of the Occupied Palestinian Territory was a viable and thriving one before the occupation in June 1967. It generated significant production and income that sustained a growing population of 1 million people and generated a gross domestic product (GDP) per capita of about $1,349 in 2004 prices,[1] which was sufficient for it to be considered a lower-middle-income economy at that time. Tragically, it has become a land on the verge of economic and humanitarian collapse.

6. In 2014, the GDP growth rate in the Occupied Palestinian Territory turned negative, for the first time since 2006. The Gaza Strip is becoming increasingly unliveable and could become totally unliveable by 2020 (see TD/B/62/3). According to the Palestinian Central Bureau of Statistics, the unemployment rate in Gaza was 45 per cent in 2014, with over 63 per cent of Gaza's young people unemployed, which is the highest rate in the world. Female unemployment in the Occupied Palestinian Territory was around 40 per cent and more than 60 per cent in Gaza. Nearly 40 per cent of Palestinians live below the poverty line. Clean water is a rarity, with at least 90 per cent of Gaza's water supply unfit for human consumption. Electricity in Gaza is also sporadic and unreliable, available only four to six hours a day, and a properly functioning sewage treatment system no longer exists.[2]

A. Some perspective on the economics of occupation

7. Throughout history, colonization and military occupations have consistently had economic objectives, which take various shapes and forms but have typically involved the exploitation and the impoverishment of the occupied (see A/70/35, annex). In its less severe form, the occupier changes the economic balance in the occupied country in its favour and in favour of the settler population. In its most severe form, the economic dimension entails the appropriation of the resources of the occupied people, displacing, replacing, impoverishing and marginalizing them.

8. The economic dimension of occupation could be described as acts and measures taken by the occupier to appropriate to itself the assets, natural resources and economic benefits that rightfully belong to the colonized people and country and undermine the capacity of the occupied people to access and use their resources, move freely within their homeland and conduct normal trade, economic and social transactions with neighbours and traditional trading partners.

9. Such measures deprive the people under occupation of not only their freedom, land and resources, but also their internationally recognized human right to development and the ability to produce, which thus forces them to consume products mainly produced by the occupier. Denying the current generation of occupied people their right to development also denies future generations their rights to work, education, safe water and food security, as well as other basic economic and human rights.

[1] See L. Farsakh, "Palestinian employment in Israel 1967-1997: a review", Palestinian Economic Policy Research Institute (August 1998), tables 2 and 5.

[2] See S. Roy, "The Gaza Strip's last safety net is in danger", *The Nation*, 6 August 2015.

10. In the Palestinian case, since the onset of the occupation in June 1967, Israel assumed total control of the Occupied Palestinian Territory's economy until the establishment of the Palestinian National Authority in 1994. However, the Palestinian people have never enjoyed full, sovereign control over their economy and society, for many reasons. The principal factors are set out in the following paragraphs.

11. The decisive factor is that the Gaza Strip and the West Bank, including East Jerusalem, remain under occupation, under the following conditions: tight restrictions on the movement of people and goods, the systematic erosion and destruction of the productive base, loss of land, water and other natural resources, a fragmented domestic market and separation from neighbouring and international markets, the tight blockade on Gaza since 2007, the expansion of Israeli settlements, the construction of the separation barrier and the establishment of the closure policy in the West Bank and the isolation of East Jerusalem from the rest of the Occupied Palestinian Territory.

12. The second factor is the Paris Protocol on Economic Relations, which was intended to define the Palestinian economic policy framework and space during the five-year interim period following the establishment of the Palestinian National Authority in 1994. Two decades on, and to date, the Protocol continues to restrict the policy space available to Palestinian policymakers and has practically reinforced a quasi-customs union that ensures Palestinian economic dependence on Israel.

B. Deformed economic structure with low productivity

13. The relationship between the Israeli economy and that of the Occupied Palestinian Territory remains that of two dissimilar and unequal economies, whereby the large, dominant economy practices policies that keep the small economy weak and dependent. The Palestinian labour market best epitomizes the dynamics of the relationship. Immediately following the 1967 occupation, low-skill employment of Palestinians in Israel became the most important factor in the relationship between the two economies. In addition, the income from the export of Palestinian labour to Israel, which could have been channelled into productive investment in the Occupied Palestinian Territory, became instead a major source of the financing of imports from Israel, deepening the dependence of the Occupied Palestinian Territory on Israel and solidifying the system of benefits to the occupier from the captive Palestinian economy.

14. The impact of the labour flows had two consequences. On the supply side, they induced higher wages in the domestic economy that did not arise from any increase in domestic productivity. That increased the cost of production, reduced the profitability of local production and precipitated a contraction in domestic agricultural and industrial production. On the demand side, the increase in income from the earnings of workers in Israel increased aggregate demand without an increase in production. That increase in demand for tradable goods was met by an increase in imports, and the increase in demand for non-tradable goods was met by an increase in prices.

15. This "Dutch disease" type of change in relative prices ultimately contributed to a contraction in the tradable goods sectors (agriculture and industry) and stimulated the non-tradable sectors (construction and services). It set in motion a

continuous process of de-agriculturalization and de-industrialization,[3] thus depriving the Palestinian people of their ability to produce and, in the process, cultivating a dependence on the Israeli economy and donor aid. Figure 1 shows the structural deformation of the economy of the Occupied Palestinian Territory over the past four decades. During the period 1975-2014, the contribution of the tradable goods sector to GDP dropped by half, from 37 to 18 per cent, while its contribution to employment decreased from 47 to 23 per cent.

16. Another explanation for the ongoing de-agriculturalization and de-industrialization processes in the Occupied Palestinian Territory is those sectors' particular vulnerability to the confiscation of Palestinian land and natural resources and the excessive Israeli restrictions on the movement of Palestinian goods and labour. Since the onset of the occupation in 1967, the Palestinian people have lost access to more than 60 per cent of West Bank land and two thirds of its grazing land. In Gaza, half of the cultivable area and 85 per cent of fishery resources are inaccessible to Palestinian producers. Furthermore, Israel has been extracting water above the level determined by article 40 of appendix 1 to annex III to the Israeli-Palestinian Interim Agreement on the West Bank and the Gaza Strip of 28 September 1995 by confiscating 82 per cent of Palestinian groundwater for use inside its borders or its settlements, while the Palestinians are left with no choice but to import from Israel over 50 per cent of the water needed for consumption.[4] The World Bank has observed that only 35 per cent of irrigable Palestinian land is actually irrigated, which costs the economy 110,000 jobs and 10 per cent of GDP.[5]

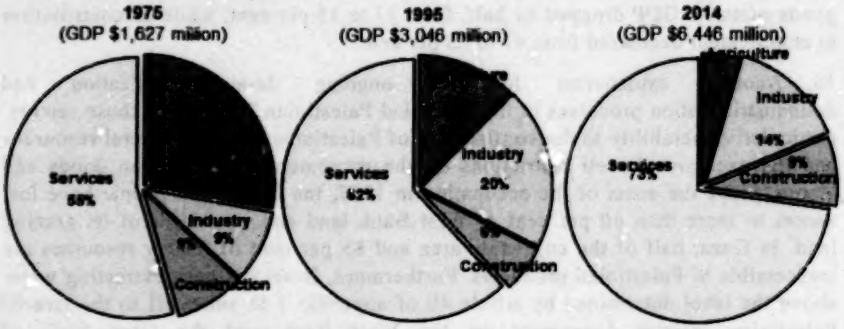
[3] See W. M. Corden and J. P. Neary, "Booming sector and de-industrialization in a small open economy", *Economic Journal*, vol. 92, pp. 825-848, December 1982, and UNCTAD, "Rebuilding the Palestinian tradable goods sector: towards economic recovery and State formation", document UNCTAD/GDS/APP/2010/1.

[4] UNCTAD, "The besieged Palestinian agriculture", document UNCTAD/GDS/APP/2015/1.

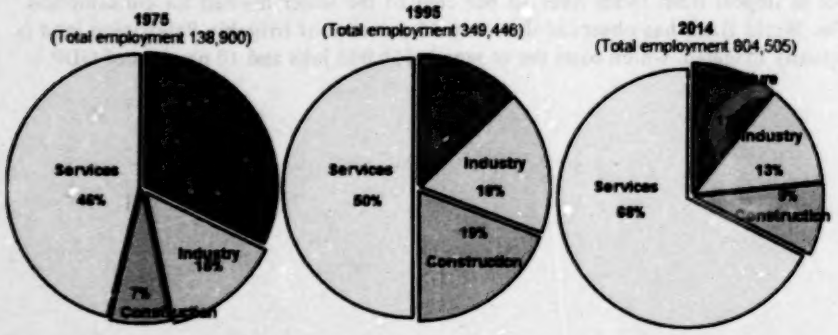
[5] World Bank, "Assessment of restrictions on Palestinian water sector development" (Washington, D.C., April 2009).

Figure 1
Structural deformation of the economy of the Occupied Palestinian Territory, 1975-2014

Sectoral share of the economy by factor cost in real GDP (2004 base year)



Sectoral share of total employment



Source: UNCTAD database, compiled on the basis of data from the Palestinian Central Bureau of Statistics.

17. In the industrial sector, the occupation and the uncertainty it breeds stifles investment and condemns the Palestinian private sector to small-scale operations with low capital intensity and low efficiency. The World Bank indicated that micro and small enterprises dominate the Palestinian business scene, with 90 per cent of firms employing less than 20 workers.[6] The small size of firms is correlated with low capital intensity and low labour productivity, with labour productivity in small firms at $10,000, which is only one third of that of large firms. According to the International Monetary Fund, during the period 1994-2010, the economy of the Occupied Palestinian Territory experienced a technological regression, with a 0.5 per cent annual decline in total factor productivity. Had the trend of growth of the previous period continued, real GDP per capita in the Occupied Palestinian Territory would have been 88 per cent higher than its level in 2010. In the period 2013-2015,

[6] World Bank, "West Bank and Gaza investment climate assessment: fragmentation and uncertainty" (Washington, D.C., September 2014).

the industrial sector witnessed further deterioration, as indicated by a 9 per cent drop in the industrial production index of the Palestinian Central Bureau of Statistics.[7]

18. According to data released by the Palestinian Central Bureau of Statistics, in the past two decades, most of the Palestinian economic indicators have deteriorated, with serious ramifications for the welfare of the Palestinian people. Table 1 shows that, during the period 1995-2014, the population grew by 3.6 per cent annually, while real GDP per capita grew by only 1 per cent. Average productivity failed to grow, and unemployment increased by 9 percentage points, to 27 per cent. The trade deficit, at 40 per cent of GDP, continued to be extremely high, while economic dependence on Israel increased, as reflected in Israel's greater share in the Palestinian trade deficit, which increased from 49 to 58 per cent during that period. Efforts by the Government of Palestine to reduce expenditure and undertake serious fiscal reforms notwithstanding, the budget deficit has not improved in the past 20 years. Reliance on donor support continues to be heavy, as reflected by the high level of current transfers, which today hover around 10 per cent of GDP.

Table 1
Long-term changes in the economy of the Occupied Palestinian Territory, 1995-2014

	Real GDP per capita (2004 dollars)	*Population[a] (millions)*	*Real average productivity (dollars)*	*Unemployment rate (percentage)*	*Trade deficit (percentage of GDP)*	*Trade deficit with Israel (percentage in trade deficit)*	*Budget deficit (percentage of GDP)*	*Net current transfers (percentage of GDP)*
1995	1 435	2.34	7 914	18.2	-57.2	49.1	-12.1	12.2
2014	1 737	4.55	8 123	26.9	-39.6	58.0	-12.5	9.4
Average annual change (percentage)	1.0	3.6	0.1					
Period change (percentage)				8.7	17.6	8.9	-0.4	-2.8

[a] Except for population, all figures exclude East Jerusalem, owing to the fact that the Palestinian Central Bureau of Statistics has no access to the city.

III. Conceptual basis for the economic costs of occupation

19. As early as the 1940s, contributions were made in the academic literature in the field of economics with regard to the valuation of the cost of societal and individual losses resulting from external injuries.[8] Those contributions pivot around the compensation principle, which is based on the understanding that, if a change in a situation would result in some persons being better off and others worse off, those who gain could compensate those who lose in such a way that, on balance, everyone would be better off. This conception of economic loss of injuries (compensation) also assumes that societal welfare losses are the sum of individual losses owing to

[7] Oussama Kanaan et al, "Macroeconomic and fiscal framework for the West Bank and Gaza", report prepared for the meeting of the International Monetary Fund Ad Hoc Liaison Committee, Brussels, April 2011.

[8] See J. R. Hicks, *A Revision of Demand Theory* (Oxford, Oxford University Press, 1951) and D. W. Winch, *Analytical Welfare Economics* (Baltimore, Penguin, 1971).

the loss of private goods, in addition to the societal losses of public goods (those goods of which one individual's consumption does not diminish their availability to other members of society).

20. Economic loss owing to, or in compensation for, external injuries is synonymous with indemnification in the legal meaning of the undoing of damage done and losses suffered. Total indemnification means, in essence, a return to the situation that existed before the loss was incurred. If it is done by way of restitution, the prior situation is restored *in specie*. If it is done wholly or partially by way of compensation, the consequences of the damage are liquidated, although the prior situation is not restored in the true sense of the word.[9]

21. In economic theory, there are three approaches for ascertaining the cost for those who suffer damages and losses as a consequence of actions by other parties. The first approach, the income approach, is widely used, in particular by courts around the world, to measure the losses of injured parties solely on the basis of the income streams that would have prevailed in the absence of the injury as compared with the existing streams. The second, the asset approach, builds on the income approach by adding the missed opportunities to the income streams lost owing to the injury. The third, the utility approach, is more general because it allows for the inclusion of a wider range of losses and admits individual variations in responses to and consequences of injuries.

22. It general, a more comprehensive approach anchored in the asset and utility approaches would more aptly account for the range of losses than would the income approach. However, the exact approach and the degree to which the asset and utility approaches are combined should depend on the type and specific characteristics of loss and the economic sector in which the loss occurred.

IV. Legal framework: historical precedents

23. The United Nations Fact-Finding Mission on the Gaza Conflict, which was established by the President of the Human Rights Council on 3 April 2009, concluded in its report to the General Assembly (A/HRC/12/48) that Israel's continuing occupation emerged as the fundamental factor underlying violations of international law and undermining prospects for development and peace.

24. In its note on the economic costs of the Israeli occupation for the Palestinian people, contained in the annex to the Report of the Committee on the Exercise of the Inalienable Rights of the Palestinian People (A/70/35), UNCTAD detailed some relevant precedents where economic costs had been taken into account as key elements for negotiating durable solutions to complex and intractable conflicts. The precedents included:

(a) Decision by the Permanent Court of International Justice of 1928 in the landmark case concerning the factory at Chorzów;[10]

[9] See N. Robinson, *Indemnification and Reparations: Jewish Aspects* (New York, International Press, 1944).

[10] *Case concerning the Factory at Chorzów (Claim for Indemnity) (Merits) (Germany v. Poland), Publications of the Permanent Court of International Justice, Collection of Judgments, Series A, No. 17*, case No. 13

(b) General Assembly resolution 194 (III) on the refugee question and compensation;

(c) Pinheiro Principles on the refugees and reparation payments in the post-Cold War era;[11]

(d) Advisory opinion of the International Court of Justice on the legal consequences of the construction of a wall in the Occupied Palestinian Territory.[12]

V. Some earlier estimates of the economic costs of the occupation

25. It follows from the previous discussion that there are costs borne by the people under occupation and costs related to the damage caused by the actions of the occupying authority (see A/AC.25/W.81/Rev.2, annexes I and II, and General Assembly resolution 194 (III)). The structural deformation of the economy, discussed in section II above, is just one element of those costs for the Palestinian people. A comprehensive assessment of the economic costs of the occupation requires the undertaking of a complicated, detailed and integrated process capable of estimating the direct and indirect economic costs in all economic sectors. To date, however, no systematic assessment or comprehensive records have been made of the economic costs and consequences of Israeli policies, actions and measures in the Occupied Palestinian Territory. Thus far, all efforts made to quantify the economic costs of the occupation have been done on ad hoc basis, mostly by UNCTAD. The literature on the subject includes the case studies described in the following paragraphs.

26. In its report on UNCTAD assistance to the Palestinian people: developments in the economy of the Occupied Palestinian Territory (TD/B/62/3), UNCTAD indicated that, in 2014, 9,333 productive trees were destroyed or vandalized in the Occupied Palestinian Territory, whereas, in January 2015 alone, another 5,600 trees were vandalized. Furthermore, the direct damages of the three Israeli military operations in Gaza, in the period between 2008 and 2014, were at least 3 times the amount of Gaza's GDP. The total cost of destruction is much higher when taking into account the indirect costs that arise from the loss of human capital and the stream of future incomes from destroyed or damaged productive assets.

[11] See the Rome Statute of the International Criminal Court of 17 July 1998 (A/CONF.183/9); the Principles on Housing and Property Restitution for Refugees and Displaced Persons, June 2005; and Basic Principles and Guidelines on the Right to a Remedy and Reparation for Victims of Gross Violations of International Human Rights Law and Serious Violations of International Humanitarian Law, General Assembly resolution 60/147 of 16 December 2005.

[12] *Legal Consequences of the Construction of a Wall in the Occupied Palestinian Territory, Advisory Opinion, International Court of Justice Reports 2004*, p. 136.

27. In its study on Palestinian fiscal revenue leakage to Israel under the Paris Protocol on Economic Relations,[13] UNCTAD estimated Palestinian revenue leakage from taxes on imports and the fiscal loss incurred by smuggling goods from Israel into the Occupied Palestinian Territory at $305 million annually, about 3.2 per cent of GDP or 17 per cent of total Palestinian public revenue in 2010-2011. If captured, the leaked revenue could expand the Palestinian fiscal policy space and thereby increase annual GDP by about 4 per cent and generate about 10,000 additional jobs per year. Moreover, the study calls for further research to estimate fiscal losses from other sources, including:

(a) Leakage of revenue from taxes levied by Israel on the incomes of Palestinians working in Israel and settlements. Under the Paris Protocol on Economic Relations, Israel is required to transfer social security, and other, tax revenue to the Government of Palestine;

(b) Seigniorage revenue loss from using the Israeli currency in the Occupied Palestinian Territory, estimated to be between 0.3-4.2 per cent of gross national income;

(c) Revenue loss from under-pricing imported goods in invoices, owing to the lack of Palestinian control and oversight over borders and the lack of access to proper trade data;

(d) Revenue loss related to the lack of control over land and natural resources;

(e) Financial resources loss related to goods and services imported through the Palestinian public sector, such as petroleum, energy and water;

(f) Loss of customs revenue as a result of not applying the World Trade Organization rules of origin on goods with less than 40 per cent of Israeli content;

(g) Fiscal loss from the smaller tax base caused by the decimation of the productive base and the loss of natural resources to the occupation.

28. In its report to the Ad Hoc Liaison Committee, the World Bank[14] followed the UNCTAD study and its account of losses by estimating other sources of Palestinian revenue losses. The World Bank suggested a loss of $285 million (2.2 percent of GDP in 2014) from seven sources in a single year. The overlap between the World Bank and UNCTAD estimates, however, is about $55 million.[15] After excluding overlapping items, the sum of those estimates suggests an annual loss of 5 per cent of GDP ($640 million in 2015). The World Bank report further indicated that Israel also retained a stock of $668 million of un-transferred Palestinian revenues (5.3 per cent of GDP). This is a cumulative, nominal figure, however, which does not take into account the impact of inflation and interest earnings over time.

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[13] UNCTAD, "Palestinian fiscal revenue leakage to Israel under the Protocol on Economic Relations", document UNCTAD/GDS/APP/2013/1.

[14] World Bank, "Economic monitoring report to the Ad Hoc Liaison Committee", 19 April 2016.

[15] The $55 million of overlapping losses is the sum of $24.4 million estimated by UNCTAD from loss of value added tax on imports (see UNCTAD, "Palestinian fiscal revenue leakage to Israel under the Protocol on Economic Relations", document UNCTAD/GDS/APP/2013/1, table 7) and $30.6 million described by the World Bank as losses from taxes on direct imports (see World Bank, "Economic monitoring report to the Ad Hoc Liaison Committee", 19 April 2016, table 2).

29. UNCTAD has been assessing different aspects of the economic and employment costs incurred by the Palestinians on account of the Israeli occupation. It is estimated that:

(a) From 2000-2005, cumulative GDP loss was $8.4 billion (real 1994 dollars), twice the size of the Palestinian economy;

(b) By 2005, at least one third of the pre-2000 physical capital of the Occupied Palestinian Territory had been lost;

(c) Losses caused by the Israeli military campaign in Gaza from December 2008 to January 2009 were half the size of the economy of the Occupied Palestinian Territory ($4 billion, real 2004 dollars);

(d) More than 2.5 million productive trees, including 800,000 olive trees, have been uprooted since 1967;

(e) Only 35 per cent of the potentially irrigable land in the Occupied Palestinian Territory is actually irrigated. This costs the economy 110,000 jobs per year and 10 per cent of GDP;

(f) At least 10 per cent of the most fertile land of the West Bank has been lost to the construction of the separation barrier;

(g) The Government of Palestine and Palestinian farmers are prohibited from maintaining, upgrading or constructing water wells;

(h) Fishing off the coast of Gaza is restricted to a range of 3 to 6 nautical miles, instead of the 20 miles stipulated in article XI of annex I to the Agreement on the Gaza Strip and the Jericho Area of 4 May 1994.

30. UNCTAD has assessed the cost of the shrunken economic policy space owing to the occupation and the Paris Protocol on Economic Relations.[16] The study used the UNCTAD econometric model of the Palestinian economy to simulate the prospects of the economy under various policy options. It assessed the impact of an integrated policy alternative that includes features of expanded fiscal, exchange rate, trade and labour policies. The study showed that if a sovereign State of Palestine were empowered with the relevant policy instruments, annual GDP could increase by 24 per cent and unemployment could drop by 19 per cent (see figs. 2 and 3).

[16] UNCTAD, "Policy alternatives for sustained Palestinian development and State formation", document UNCTAD/GDS/APP/2008/1.

Figure 2
Impact of policy space on GDP per capita
(in 1997 dollars)

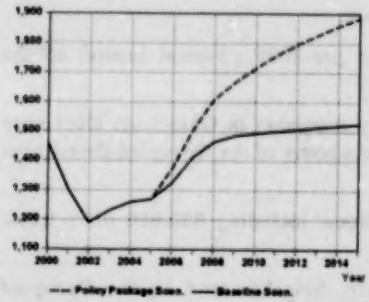
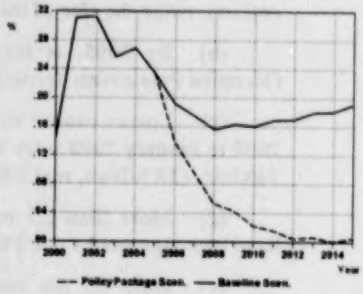


Figure 3
Impact of policy space on unemployment rate
(percentage)



31. In its study, the World Bank provided partial estimates of the costs of the occupation in Area C (61 per cent of the West Bank) in the following sectors: agriculture, Dead Sea minerals exploitation, stone mining and quarrying, construction, tourism, telecommunications and cosmetics.[17] The study estimated the costs of the occupation in Area C at 23 per cent of GDP ($2.9 billion in 2015) in direct costs, in addition to 12 per cent of GDP ($1.5 billion in 2015) in indirect costs, for a total cost of 35 per cent of GDP. Furthermore, the fiscal cost of the occupation in Area C was estimated at $800 million in lost revenue, equivalent to 50 per cent of the Palestinian fiscal deficit. The study also contended that Palestinian employment could rise by 35 per cent if the occupation of Area C were ended.

32. Another recent study by the World Bank, on the Palestinian telecommunications sector, concluded that the total revenue loss for the Palestinian mobile telephone sector during the period 2013-2015 was in the range of $436 to $1,150 million, including the Palestinian fiscal loss of $70 to $184 million.[18] The direct cost was in the range of 1 per cent of annual GDP.

33. In its resolution ES-10/17 of 24 January 2007, the General Assembly established the United Nations Register of Damage Caused by the Construction of the Wall in the Occupied Palestinian Territory. The main focus of the Register of Damage is on the damage emanating from the construction of the separation barrier in the West Bank, and it does not cover any other measure taken by the occupying Power. Its mandate is to serve only as a record of the damage caused to all natural and legal persons concerned as a result of the construction of the separation barrier by Israel in the Occupied Palestinian Territory, including in and around East Jerusalem. As at February 2016, the Register of Damage had completed the claim of damages in seven of nine affected Palestinian governorates. A total of 52,870 claim forms and over 300,000 supporting documents were collected in 233 Palestinian communities, with a population of 946,285. Of the total number of collected claims,

[17] World Bank, "West Bank and Gaza: Area C and the future of the Palestinian economy" (Washington, D.C., October 2013).

[18] World Bank, "Telecommunication sector note in the Palestinian territories: missed opportunity for economic development" (Washington, D.C., 2016).

20,459 have been processed and reviewed by the Board of the Office of the Register of Damage for inclusion in the Register of Damage. The vast majority of the claims were categorized as agricultural losses.

34. The Ministry of National Economy of the State of Palestine and the Applied Research Institute — Jerusalem have estimated the cost of the occupation in 2010 at $6.9 billion or 85 per cent of GDP.[19] This cost does not include the impact of the Israeli security measures but focuses mainly on the impact of the tight restrictions imposed on the Palestinian people and their lack of ownership and access to their own natural resources, most of which are exploited by Israel. The estimated cost took into account the impact of the following factors: the blockade on Gaza, restrictions on water and natural resources (including natural gas fields), mobility and other restrictions on domestic and international trade and people, loss of Dead Sea tourism, uprooted trees and public utility costs.

35. The Applied Research Institute — Jerusalem assessed the direct cost and forgone revenue from the restrictions imposed by Israel on the mobility of people and goods in the West Bank, as well as the restrictions on access to, and the development of, the natural gas fields, fishery, irrigation water and agricultural sectors.[20] The assessment also calculated the direct cost of the destruction of Palestinian infrastructure, house demolitions in the West Bank and the military operation in Gaza in 2014. The study estimated these specific direct costs at 74 per cent of GDP ($9.95 billion). However, the study covered only the direct cost of some, not all, of the constraints imposed by the occupation and therefore significantly underestimated the total direct and indirect costs.

36. The study conducted by Walid Mustafa focused on the Israeli restrictions on Palestinian activities in order to take advantage of natural resources in the Occupied Palestinian Territory, including building stone, sand in the Gaza Strip, phosphate and mineral resources in the Dead Sea, petroleum and natural gas.[21] The Israeli expropriation of building stone in Area C was estimated at about $900 million annually (0.7 per cent of 2015 GDP). The study maintained that Israel had seized Gaza's sea basin and had denied Palestinians the right to explore for and develop oil and gas resources in the West Bank and the Gaza Strip.

37. Following General Assembly resolution 194 (III), in which the Assembly stipulated refugees' right to return and compensation, Atif A. Kubursi conducted a study on Palestinian losses in 1948 and elaborated on the rights of refugees in terms of restitution of property and compensation for lost opportunity from property and human capital losses.[22] The study indicated that, from 1948 to 2000, the cumulative material and human capital losses suffered by Palestinian refugees stood at $173 billion and $275 billion, respectively, in 2000 prices.

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[19] Ministry of National Economy of the State of Palestine and the Applied Research Institute — Jerusalem, "The economic costs of the Israeli occupation for the Occupied Palestinian Territory", September 2011. Available from www.un.org/depts/dpa/qpal/docs/2012Cairo/p2%20jad%20isaac%20e.pdf.

[20] Applied Research Institute — Jerusalem, "The economic cost of the Israeli occupation of the occupied Palestinian territories", 2015.

[21] Walid Mustafa, *Palestine's Natural Resources: Potential and Limitations on Exploitation* (Jerusalem and Ramallah, Palestine Economic Policy Research Institute, 2016). Available from http://mas.ps/files/server/20162404092052-1.pdf (accessed 5 August 2016).

[22] Atif A. Kubursi, "Palestinian losses in 1948: calculating refugee compensation", information brief prepared for the Center for Policy Analysis on Palestine, 3 August 2001.

VI. Typology of losses and methodology

A. Concept of losses and their typology

38. As indicated in section I above, not all of the occupation-related costs can be measured in monetary terms, and any assessment of the economic costs of the occupation for the Palestinian people is, at best, a partial measurement of the losses and costs incurred since the onset of the occupation. However, the first step towards evaluating the economic costs of the occupation that can be measured monetarily is to identify their type.

39. The typology of the costs incurred by the Palestinian people under the occupation that follow from the "de-development" policies and measures imposed by the occupying authority on the Palestinian economy calls for identifying, monitoring and measuring such losses in a systematic and periodic manner. This includes, but is not restricted to, the following types of losses:

(a) Physical;

(b) Water and other natural resources;

(c) Human capital;

(d) Opportunity and economic;

(e) Microeconomic, macroeconomic and fiscal;

(f) Community and neighbourhood;

(g) Psychosocial.

40. The identification and quantification of each of those losses is the critical core of the methodology of metering the economic costs of the occupation. For each type of loss, the conceptual question is to determine: (a) the actions taken by the occupying Power that could be considered harmful to the Palestinian economy and people; and (b) the appropriate monetary value of the cost that could be assigned to each action taken by the occupying Power. Arriving at a tenable answer is necessarily complicated and multidimensional, requiring expertise in economics, law, history and politics.

41. Preliminary assessment suggests that the methodologies for evaluating the economic costs of the occupation should depend on the specificity of the type of loss under consideration and the economic sector in which it occurred. Therefore, to avoid double counting and link each type of loss to the economic base from which it arises, each type of loss would be assessed by sector and type of asset. Any additional costs arising from the utility approach could be added to the list without duplication. The best way to portray the essence of this approach is through the matrix format shown in table 2.

42. Upon determining the type of losses, questions arise with regard to: (a) how these losses can be measured and what is the appropriate methodology required to do so; (b) how these losses span across the different sectors of the economy; and (c) the extent to which the overlapping types of losses and classification of losses by sector influence the methodology of quantifying these costs of the occupation.

Table 2
Matrix of the economic costs of the occupation by type of loss and economic sector

	Type of loss						
Sector	*Physical*	*Water and natural resources*	*Human capital*	*Opportunity and economic*	*Micro- and macroeconomic and fiscal*	*Neighbourhood and community*	*Psychosocial*
Agriculture							
Mining							
Manufacturing							
Construction							
Trade and Services							

B. Methodology, periodicity and data

43. A comprehensive evaluation of the economic costs of the occupation requires detailed and interrelated methodologies capable of estimating the direct and indirect economic costs of all types of losses in all sectors of the economy. The overall methodology should ensure consistency of evaluation, on the basis of best practices and sound theories, and should be:

(a) Concise, so that it may be treated as a stand-alone document. It should be comprehensible, in particular to those involved in policymaking and negotiation;

(b) Flexible. The methodology must be kept under regular review and should be amended as and when necessary;

(c) Consistent, rather than subtle and arbitrary. The methodology should allow easy processing, consistency and accuracy of the valuation work by relying on generally accepted valuation principles and international valuation standards;

(d) Able to be audited and verified. The methodology should rely, as much as possible, on reliable historical evidence from past assessments in order to minimize areas of subjective judgment applied in the valuation and thus take into account the difficulty of obtaining new evidence and records.

44. Although there are a number of specific methodologies that could be applied to the estimation of the economic costs of the occupation, they could be grouped into two general approaches, a macro (or top-down) approach and an accounting (or bottom-up) approach. Each approach has its own positive and negative aspects, and its use should depend on the type of loss and the sector within which the loss occurs, as well as the availability of data and resources needed for the application of the chosen approach. With this in mind, it seems that a social accounting matrix (macro/top-down) approach is more appropriate for assessing the economic costs of the occupation in the Occupied Palestinian Territory, given the multiplicity of sectors, types of losses and groups affected. Nevertheless, for a small number of losses, the accounting approach will have to be considered. Therefore, the methodology can be a mix of more than one approach, depending on the type of loss and the economic sector.

45. In general, there is no shortage of methodologies but there may be shortage of data. Prior to undertaking the full assessment exercise, exploration of the availability of data and the possibility of accessing and generating new data should take place. This will require additional resources and close cooperation with the Palestinian Central Bureau of Statistics, which should be one of the main national partners in this exercise.

46. As for the periodicity and frequency of the evaluation exercise, it is envisaged that an annual report will be submitted to the General Assembly, on an ongoing basis. Any new costs emanating from the continuation of the occupation and the recent damaging measures will be included in the report under a separate heading. In addition to this annual report, 8 to 10 analytical studies should be conducted to build an inventory of the losses, which should be connected to earlier evaluations of the historical cost of the occupation since 1967. A summary of these analytical studies should be submitted to the Assembly in the context of the first three to four annual reports.

VII. Institutional set-up, implementation and outputs

A. Institutional set-up and implementation

47. In the light of UNCTAD's existing mandate, its proven expertise on the Palestinian economy and its capacity to convene and coordinate the work of several bodies within the United Nations system, the General Assembly, in its resolution 69/20, requested UNCTAD to report on the economic costs of the occupation for the Palestinian people.

48. With a view to facilitating future negotiations for a just, lasting, peaceful settlement of the Palestinian-Israeli conflict, UNCTAD is in a technical position to establish within the United Nations system a framework to estimate the historical and recurrent economic costs of the occupation in a systematic, comprehensive, scientific and evidence-based way on regular basis, and will report, document, update and keep an inventory of historical and new actions taken by the occupying Power, specifically those which have a damaging economic impact on the Palestinian people, their livelihoods and their immediate and future ability to maintain a viable and efficient economy.

B. Outputs and activities

49. The establishment of the framework for estimating the economic costs of the occupation would involve substantial additional work, including defining the conceptual dimension of the economic costs of the occupation within the United Nations framework, proposing and identifying relevant methodologies, developing models and calibrating, evaluating and maintaining them, developing databases and compiling data annually, updating and assessing the ongoing and historical economic costs of the occupation and regularly reporting to the General Assembly on such matters. This will require a mix of both regular budget and extrabudgetary resources.

50. It is expected that the evaluation exercise and building an inventory of the ongoing and historical economic costs of the occupation may take about four years (two bienniums) of work. This would include producing three annual reports to the General Assembly, beginning with the second year of implementation. The quantification of the historical economic costs of the occupation would require two to four studies focusing on issues related to methodology, data, legal precedents and opinions and other pertinent issues. In addition, six to eight studies should be conducted, each of dedicated to a specific type of loss.

51. Table 3 lists the expected outputs and activities for the implementation of the exercise, for the first four years of the task of estimating and reporting the economic costs of the occupation.

Table 3
Four-year plan of outputs and activities for the evaluation of the economic costs of the occupation in the Occupied Palestinian Territory

	Year 1	*Year 2*	*Year 3*	*Year 4*
Outputs				
Annual report to the General Assembly		Report	Report	Report
Background studies on legal precedents, data and methodology	2-4 studies			
Studies on losses by type and sector for the period 1967-2016	1-2 studies	3-4 studies	3-2 studies	1-2 studies
Activities				
Identifying the concept of the economic costs of the occupation and methodologies	Yes			
Fieldwork and data and information collection	Yes	Yes	Yes	Yes
Development of quantitative and econometric models	2-4 models			
Estimation and calibration of models	2-4 models	2-4 models	2-4 models	2-4 models
Estimation of the economic costs of the occupation by sector and type of loss	All sectors and types	All sectors and types	All sectors and types	All sectors and types
Expert group meeting	2 meetings	2 meetings	1-2 meetings	1 meeting

VIII. Conclusions and recommendations

52. The present report does not report on the qualitative or quantitative aspects of the economic costs of the occupation for the Palestinian people, rather it underscores to Member States the critical importance of this assignment and the need to equip the international community with an objective understanding and specific measurements of the effects of the occupation on the Palestinian people. An accurate assessment of these costs may also ensure accountability on the part of the occupying authority towards fulfilling its obligations under international law.

53. Furthermore, the examination of the economic costs of the occupation, as well as other obstacles to trade and development in the Occupied Palestinian Territory, is

essential for signifying the magnitude of the losses and the difficulties the Palestinian people have endured and continue to endure under the occupation, identifying policies for placing the Palestinian economy on the path of sustainable development and facilitating future negotiations for a just settlement of the Palestinian-Israeli conflict and for a lasting peace in the Middle East.

54. To make an accurate assessment of the damages inflicted by the occupation, a calculation must first be made of the resources and policies required for achieving the Sustainable Development Goals in the Occupied Palestinian Territory and placing the economy on a sustainable development track that safeguards the interests and capacities of the present generation while at the same time expanding the potential of future generations. This would serve as the basis for peace in the Occupied Palestinian Territory, which would be solidified by a thriving, free economy able to meet the present and future needs of its people and protect the fragile environment from further degradation exacerbated by poverty.

55. It should be stressed that the economic costs of the occupation, and any estimation of them, are not and should not be perceived as, nor used for, advocating monetary compensation as a substitute for ending the occupation. Furthermore, not all of the losses, damages and destruction inflicted by the occupation can be evaluated or measured in monetary terms.

56. All previous studies on the economic costs of the occupation in the Occupied Palestinian Territory were performed on ad hoc basis, and not within a single comprehensive framework that could add up the different types of losses and the direct and indirect costs in all economic sectors. They have just scratched the surface of the much larger economic costs of the Israeli occupation for the Palestinian people. Without the occupation, the Palestinian economy could easily produce twice the GDP it currently generates, while the chronic trade and budget deficits, as well as poverty and unemployment, could recede and the economic dependence on Israel could end.

57. There is therefore an urgent need to establish within the United Nations system a systematic, rigorous, evidence-based, comprehensive and sustainable framework:

(a) To take an inventory of, and regularly record and update, the actions taken by the occupying authority, in particular those which continue to inflict damage and economic costs for the Palestinian people and their lives and livelihoods;

(b) To estimate and update the recurrent and new economic costs of such actions in a systematic and evidence-based way and on regular basis;

(c) To report annually to the General Assembly on those costs;

(d) To identify the resources and policies required for achieving the Sustainable Development Goals in the Occupied Palestinian Territory.

58. The need for such a framework was recognized by the General Assembly, and, in paragraph 9 of its resolution 69/20, the Assembly requested UNCTAD to report to it on the economic costs of the Israeli occupation for the Palestinian people. The request is a testament to UNCTAD's proven expertise on the Palestinian economy and its constraints and development prospects, as well as to UNCTAD's technical and professional capacity to lead and coordinate the work of other United Nations entities in implementing this important task.

59. UNCTAD is technically well positioned within the United Nations system to assume the responsibilities of the evaluation of the economic costs of the occupation for the Palestinian people. The task cannot be implemented with the resources currently available, however. Additional resources are required for UNCTAD to fulfil the request of the General Assembly. Allocating those additional resources should be done through the appropriate United Nations mechanisms with support from the donor community to secure additional extrabudgetary resources.

60. Member States are invited to consider requesting UNCTAD to take an inventory of, and regularly record, update and estimate the economic costs of the Israeli occupation for the Palestinian people and to report thereon to the General Assembly on an annual basis.